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SUBJECT: Fiat Out of the Red

Restructuring Starts to Show Profits

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[¶1.](#) Fiat Chairman Luca Cordero di Montezemolo held a press conference to announce that after almost five years of steady losses, the auto giant posted operating profits of 1.33 billion euro in 2005. Fiat ended the year with 7 billion euro in cash, compared with 6 billion euro at the end of 2004, and reduced its net industrial debt to 3.2 billion euro from 9.4 billion euro. The full-year profit is the first recorded results of a massive restructuring including substantial cost cuts, the sale of Fiat's stake in energy group Italenergia Bis, a debt-for-share swap with its bankers, a 1.5 billion euro "divorce settlement" from General Motors to end a failed alliance, and increased sales from the launch of a new car model, Grande Punto, historically the group's best-selling model. Fiat also recently signed production agreements with Ford Motor Co. and Tata Motors Ltd. of India.

[¶2.](#) Industry analysts wonder if Fiat car recovery has legs, especially because the GM settlement and debt for stock swap were one-offs. Fiat is currently fighting with Italian Welfare Minister Roberto Maroni to get the GOI to pay for lay-offs/early retirement packages at its Italian plants. Maroni has postponed any decision until after the April national elections.

Banks Cashing Out

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[¶3.](#) San Paolo IMI and Monte dei Paschi di Siena unexpectedly sold last week the shares they received for Fiat debt. The two banks, along with three other large Italian banks, rescued the troubled company in 2003 through a debt-for-equity swap. There have been lots of rumors as to why Turin-based San Paolo IMI decided to disinvest. The bank's official response is that it sold its share because the investment was always meant to be temporary, arguing that Fiat has completed its turnaround. Italian press, however, have personalized the transaction, speculating that San Paolo president Enrico Salza felt excluded when the Agnelli family, fearing that Fiat was under assault, decided to buy back some of their Fiat shares last September without consulting him. Press also notes that Salza has never been on good terms with Fiat's current President and head of the powerful national manufacturing association, Confindustria, Luca Cordero di Montezemolo. (Note: Despite the extensive coverage as to why Salza did not first coordinate this move with Fiat, we note that such disclosure would have, in fact, been illegal.)

Deborah Graze